

INFORMATION REPORT

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SUPPLEMENT TO REPORT NO.

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1. Some of the major characteristics of the fiscal policies of the Chinese Communist Government have been demonstrated in recent developments. Communists and other persons concerned with public finance administration state that the government is now trying to meet all of its expenses from taxation. These expenses are very high since it is necessary to support large armed forces, and, at the same time, to make heavy capital investments for the purpose of increasing industrial production. That the national economy may not be able to bear the burden of present taxation is a question causing some concern to government economists, particularly since they have no detailed studies or trustworthy estimates on which to base tax policies. They believe, however, that the tremendous amount of capital used for excessive speculation during 1948 and 1949 can be absorbed by present taxation without harm to the national economy.
2. The economists believe that the countryside bore under the Nationalists a disproportionately large portion of the national tax burden. The new taxes are designed to fall heaviest on the cities, where there is more speculative capital. Officials in Canton have been warned by non-Communist economists in academic circles that Canton taxes are absorbing much of the working capital of Canton's commerce and industry, and that this circumstance is almost certain to result in a decrease in production. The officials admit the possibility, but state that they must have this revenue and that they will increase production by increasing industrial efficiency. Under the Nationalists, production in large industrial units in Canton was sometimes increased by the management's controlling the enterprise. These managers and technicians are now receiving high pay and bonuses. This policy increases production in larger units, but is impractical in the case of the small, semi-handicraft industry, which almost monopolizes production in some industries. The Communist Government has yet to devise a policy to cope with the latter group.
3. In three villages near Canton, grain taxes are assessed at the end of the harvest on a sliding scale. The total yield for each landholder is determined by assessors. For each member of the household, three (3) piculs of rice is deducted from this total. A further deduction is allowed for production costs, in which figure labor

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This document is hereby regraded to CONFIDENTIAL in accordance with the letter of 15 October 1978 from the Director of Central Intelligence to the Archivist of the United States.

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is not included. A graduated tax, from four to twenty-five percent depending on the productivity of the land, is then assessed. The farmer is at liberty to dispose of his net surplus as he wishes. In general, the farmers regard this tax as light and equitable, especially since there have been no special assessments and levies during the past month. The farmers, past masters at the art of concealing production and adulterating grains paid as tax revenues, are successfully practicing their old tricks. This pattern appears to be common throughout Kwangtung so far as the grain tax is concerned.

4. In Canton proper there are three major taxes. While two of these are loans, they are regarded by the body politic as taxes. They are as follows:

- (1) "Victory Loan," Sheng Li Chieh-k'uan (勝利借款), for which Canton has a quota of Jen Min Piao \$1,500,000,000. This loan matures in three years, but it is regarded as a forced contribution and those paying it are not hopeful of recovering their investments. Subscribers receive no bonds or similar documents, but are given a receipt which does not bear a promise to repay.
- (2) Public Victory Bonds, Sheng-li Kung Chui (勝利公債), which are to mature in five years and bear five percent interest. The Canton quota for these obligations is expected to be about JPY\$5,000,000,000. Subscriptions will be obligatory.
- (3) Surplus Profits Tax (利得稅), for which the Canton quota for the current year is JPY\$3,000,000,000. When this tax was announced, a "Democratic Determination of Tax Rate Meeting" was called by the municipal authorities. Each industry was represented and was assigned a quota of the total tax. The leaders of each industry then met separately to pro-rate the tax among firms belonging to that industry. No appeal was allowed the individual firm from the decision of the leaders of the industry. No figures are available on the effects of the surplus profits tax on industry. However, in one case a leather goods factory having a capital of HK\$15,000 which normally earned about 3.5 percent per month on this sum, has, in the past three months, been taxed HK\$2,000 on the Surplus Profits Tax, HK\$1,500 on the Victory Loan, and a HK\$3,000 assessment for certain public works improvements in the neighborhood where the factory is located. In another case, the Hsin-i (新義) pharmaceutical works, which does a normal business of HK\$20,000 per month, was taxed HK\$22,000 in three months. Both of these plants have ceased operations.

5. One of the means being used by the Chinese Communist Government to decrease expenses is to employ garrison troops in agriculture. This has been begun in the Canton area. For example, a company on guard duty near T'ien-ho Airfield is cultivating unused land in the vicinity. Permission to use the land was first asked of the owners. Where permission was not given, the land was not cultivated. A nominal rental is paid the owners and the production is exempt from taxation. The unit supplies its own needs for vegetables and pork and expects to provide its own rice within the next several months. This system is being followed by all troops in Kwangtung not actually engaged in or preparing for combat.

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